

CITY OF JUNCTION CITY

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May 10, 2010

CITY OF JUNCTION CITY BUDGET MESSAGE FOR FISCAL YEAR 2010-/11

TO: Dwight Coon, Mayor
Members of the City Council
Members of the Budget Committee
Citizens of Junction City

SECTION I – The Proposed Budget: Overview

The Proposed Budget presented for your review and consideration has been prepared according to Oregon Budget Law with assistance from City Staff and Council Committee members. The Budget is prepared by fund. As proposed, the City has five operating funds – two governmental types (General and Street) and three enterprise types (Water, Sewer and Sanitation). Each fund contains a resources section (beginning fund balance and current revenue), one or more expenditure appropriation types, and an ending fund balance. Revenue projections are mostly conservative. Expenditure projections are cautious.

As required by Budget Law, the beginning fund balance plus the projected annual revenues does (and must) equal the total expenditures (inclusive of contingency and transfers) plus the ending balance in each fund. For the most part expenditures (inclusive of capital outlay and transfers), with the notable exception of the General Fund, are equaled or exceeded by revenues (inclusive of transfers). Contingency accounts are not being considered for this analysis as they cannot be directly expended and require subsequent Council action before being available for appropriation. As in previous years, the General Fund also has a planned deficit, though may produce an actual surplus at year end. There will be more discussion on the General Fund planned deficit below.

“More Challenging Times Ahead”! That’s the name I have given the budget presentation and the approach we are taking to this budget. Junction City appears to be slowly coming back from the depths of the recession. While the impacts from losses of Country Coach, Gibson Motors and other viable businesses is not yet fully understood, there continues to be positive



signals from the investment community. Housing starts continue to be strong. Businesses continue to open their doors with both a coffee shop and a jewelry store opening soon in town. Grain Millers has submitted its annexation petition. Nonetheless, caution is the mantra these days with a mix of slight optimism.

The state of the overall budget is fairly strong. The Council has continued to enact planned rate hikes for the utility funds in anticipation of the infrastructure expansion required by the Departments of Environmental Quality and Human Services; as well as to meet the needs of our current community, future growth and the State Institutions. The City is undertaking major expansions in both the wastewater and water treatment systems.

The one budget that has struggled these past two years, particularly last, was the General Fund. Last year was the second year in a row that the City relied on reserves to achieve a balanced budget. This coming year's budget is also built on some partial reliance on reserves, though by year end, we could see a surplus. The planned deficit is approximately \$110,000, which if realized, would bring the reserves to the \$1.5 million level or approximately 42% of General Fund operations. While this constitutes a healthy reserve, the goal continues to be to start developing surpluses in the General Fund to grow the reserve.

To this end, a number of different measures have been incorporated in the FY2010-11 General Fund budget. The goal has been to limit the impact on existing services by instituting a number of expenditure and revenue actions. Specifically, labor costs, being some 60 – 70% of the operating budget, have been targeted. Management and AFSCME employees will be taking no cost-of-living increases in the coming year, provided the AFSCME contract is ratified by the Council tomorrow evening. This is the second year in a row for management to be limited to no COLA increase. The Police Association has been asked to voluntarily to consider the same for next year. We are waiting for a response from them.

Other measures include changes to the health benefit plans that will limit future annual increases to a maximum of 5% until the Health Insurance Fund is exhausted. Thereafter, all increases will be shared 50-50. Additionally, management obtained some additional flexibility through negotiations that will allow the City to consider high-deductible plans that would further limit premium growth.

While demands for City services have grown this year and will do so again next year, no staff increases were awarded. The City will operate effectively with the same number of Full Time Equivalents (FTE's) in the coming year as it did this year; approximately 42 plus three additional seasonal FTE's. Equipment purchases in the coming year were also limited. Materials and services accounts were effectively frozen at near current year levels, with some exceptions made when coupled with new revenues tied to programs.

On the revenue side, several initiatives begun this year and some new for next will help bring the General Fund closer to balance. The City began posting interest earnings from the Department of Corrections (DOC) Project Fund to the General Fund this year. While this is a temporary measure for the next several years, it is hoped that it will help us get over a hump while growth and other changes are brought on line. New and enhanced Public Safety fees were also implemented this year; as well as further implementation of the dispatch unit-cost approach to cost recovery for that program.

Additional revenue measures included in the budget are the proposed implementation of a new franchise fee on City enterprise activities as well as a proposed increase in the electric franchise fee for PacifiCorp next year. The enterprise franchise fee is proposed to be levied against water, sewer and sanitation in the amount of 5%. To assure that rates to the customer will not be impacted by this move, the Public Works Department has successfully worked with Administration to defer planned acquisitions and staff increases. The philosophical underpinnings for the new fee are the notion that City enterprise activities should not be exempt from both paying for the use of right-of-way and property taxes, when private enterprise activities are not. While the General Fund owns the underlying assets, it is receiving no compensation in the form of taxes or fees for their use.

Finally, the proposed fee increase to PacifiCorp for next year is also set to increase to 5% from the current 3.5% level; or a 1.5% increase. This would be the first rate increase in 20 years and would bring the PacifiCorp franchise on a par with the Emerald Public Utility District rate. While this is below the 7% level previously recommended by staff, this nonetheless is an essential element of bringing the General Fund budget towards balance. Long term, staff believes that it will be necessary for future budgets to seek out the maximum available given the constraints of property tax measures 5 and 50.

As with the current year, long range planning services will continue to be challenged with the next round of work on the Customized Periodic Review. The focus will be on residential lands inventory and needs analysis, review of the commercial land needs and the completion of the local wetlands inventory. The City will be undertaking a much-needed transportation system plan rewrite, also funded through grant funding. With these planning efforts complete and adoption of the transportation refinement plan, the City should be well poised for many years to come to accomplish its goals and take advantage of funding and development opportunities that present themselves.

This year saw the completed drafting of a number of plans; the Water System Master Plan, the Parks Master Plan and related System Development Charge (SDC), the Water Emergency Response Plan, and the Total Maximum Daily Loads (TMDL) Plan. Still waiting completion in the coming year is the much anticipated updated Master Facility Plan that will give us

guidance for the development of wastewater facilities. Also left to be done are any necessary SDC updates to match the accompanying plans.

This past year saw the first construction work under the construction Intergovernmental Agreement (IGA) with the DOC. The City currently has in excess of \$11 million worth of construction under contract with much more planned. This next year should also see the final negotiations completed on the second major IGA resulting in treatment systems for both water and wastewater. It is anticipated that the resultant cost for this second IGA may approach the \$34 million from the first IGA. The ultimate City cost is not yet determined though we have been using a placeholder of approximately \$20 million to forecast financing needs. It is uncertain at this time whether there will be grant funding available, beyond all of the resources that we are receiving from DOC, to further assist in driving the City's share down.

SECTION II – The Proposed Budget: Detail

This year's expenditure budget for all funds, excluding the DOC-IGA Infrastructure Fund but including major capital outlay, is \$10,545,523. The DOC-IGA Infrastructure Fund has been separately budgeted at \$23,947,000. Expenditures for the five major operating funds account for \$7,140,053 or a 0.6% increase from last year. Again, this is largely due to expenditure measures previously discussed, plus some reduction in both growth-related and grant-funded spending.

The General Fund expenditures for the coming year are budgeted at \$3,601,045 or a 1.7% reduction from the current year. General Fund revenues are estimated to come in at \$3,490,164 or an approximate \$110,000 deficit (\$60,000 if contingency is not included). The remaining operating funds are essentially balanced between expenditures and revenues. The totals for the five funds result in a shortfall of \$146,838.

For the General Fund, this will mean a likely FY2010-11 year end reserve ending balance at approximately \$1.5 Million. This amounts to approximately a 42% reserve as measured against planned expenditures. By most measures, this would be very healthy indeed. The cause for concern is that the sooner we can turn the General Fund around to produce annual, sustainable surpluses the better. If the goal is to preserve and grow existing services, then the only available means to meet this goal is through continued focus on enhancing revenues.

For the most part, there will be few changes in the General Fund this year. Staffing will remain unchanged. The Police Department has initiated several new or enhanced fees. While they are seeing no increases in personnel, there will be some increases in fee-supported activities such as probation, training, etc. We are anticipating a growth in fines from improved collections through the Court and increased traffic enforcement. Finally, the Police Department is continuing to pursue the funding of an 11th officer through grant funding. If

awarded, that funding would last for about three years, after which time the City would be obligated to continue the position with its own resources.

Community Services has adopted the same operational model as the Senior Center by moving all of its operating costs into a separate fund with the eventual goal of eliminating City support for operations, other than personnel costs. Staffing for both the Centers will still be provided for by the General Fund, but operating costs are essentially self-supporting except for a start-up transfer of \$5,000 in support of the new Community Services Fund.

There will be no significant changes in the operations in any of the enterprise funds. Personnel allocations will remain the same though there are a couple of position reclassifications that have been approved through the negotiation process that will have a minor impact on the budgets. The one initiative that has been previously discussed is the creation of the franchise fee on the utilities to offset the use of rights-of-way as well as the tax-free status of the enterprises. We will also see an increase in the contributions to the Water System Improvement Fund and continued high-level contributions to the Wastewater System Improvement Fund consistent with the needs to build up reserves in anticipation of major capital improvements to come.

The Street Fund will see a decline in planned expenditures as proposed capital improvements are limited in the coming year. The Fund anticipates expending approximately \$100,000 in new Street Refurbishment/Improvements; down from \$220,000 this year. The Sanitation Fund will see increases from transfers to the Equipment Reserve and the Sanitation System Improvement Funds. While there is no scheduled fee increase in Sanitation, unlike Water and Wastewater, funds have been budgeted to do a professional rate study.

The DOC-IGA Infrastructure Capital Project Fund has \$23,947,000 budgeted to complete current contract work and the balance of the project work scheduled under the current \$34 Million IGA with the State. To assist the City in meeting its scheduled contributions, staff has been working on several revenue-raising matters. We are seeking inexpensive loan funds through the United State Department of Agriculture – Rural Development program; as well grant funds, if available.

Additionally, the City has the right under the IGA to seek reimbursement through a zone of benefit for any system over-sizing. That right was obtained through negotiations with the DOC and is of significant value. Finally, the City will be negotiating further “buy-in” from the DOC beyond the \$2 Million already secured for future wastewater over-sizing needs.

There are a number of other significant initiatives in the planned budget. The City hopes to begin, if not complete, development of the first park in a number of years to serve the Southwest quadrant of the City. We continue to put effort and resources into the hoped-for development of a skate park. Funds have also been set aside again this year to make long-

awaited improvements at Bergstrom Park. We are also looking to make some facility improvements to allow for further work at the Community Service Center and perhaps at the Q-Hut to provide some flexible space for the Police Department. Other alternatives are being considered as well.

The City will be upgrading its financial management software this year; an effort that should assist us in meeting the auditor's management recommendations. The Codification effort will continue and hopefully will be coming to closure in the coming year. The funds to complete an Urban Renewal feasibility study as well as to begin work on an Urban Renewal Plan are included in the budget; though there has been some talk at the Community Development Committee about delaying these expenditures.

Staff has proposed a number of uses for State Revenue Sharing proceeds this upcoming year, though none differ significantly from the current year. Among the proposed uses are transfers for the previously mentioned Police vehicles and for future Information Technology requirements. Additionally, funds have been proposed to fund a salary survey for non-represented and Public Safety staff in preparation for upcoming Police Officer Association negotiations. Finally, funds have been set aside as in previous years to assist Junction City Athletics and for completion of the Codification.

The City continues to be relatively debt-free. There are no outstanding bonds and the only remaining debt is the loan received from the Oregon Economic Development Department in the original amount of \$250,000. After making this year's payment, the remaining principal balance will be \$58,736.

SECTION III – Conclusion

The underlying philosophy for this year's City Budget is one of very cautious optimism about the future; combined with the need for very conservative finances. As with the current year, I believe this budget encompasses that strategy; conservative relative to basic services but laced with strategic investments in the future that we see changing around us.

That said; staff believes it is time we engage in a comprehensive long-range budgeting process. Such a process would have as its focus a more intensive view of critical and desirable services moving forward; plus a serious look at the revenues required to sustain the planned expenditure growth over the years to come. This process should be one that engages the public as well as the City leadership.

As ever, this was put together with the assistance of all of your staff, but particularly the efforts of Shauna Hartz, Finance Director, should not go unacknowledged. It is not always easy working for someone that is constantly recreating process, but Shauna to her credit showed the kind of flexibility needed without delivering the haymaker. Job very well done!

As with previous years, I would also like to thank you all for the faith and trust you place in us, your staff, to manage this great asset, the City of Junction City.

Sincerely,

David Clyne
City Administrator